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Anthony M. Alessi
Director
Federal Relations

October 5, 1994

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OCT - 5 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

Re: **Ex Parte Statement**
Docket No. 94-1

Dear Mr. Caton:

On October 5, 1994, Mr. Pablo Spiller, Professor of Business and Public Policy, University of California at Berkeley, Mr Ken Dunmore, Director - Economic and Policy Studies of Ameritech and I met with Ms. Kathleen Wallman, Chief, Common Carrier Bureau and staff to discuss our position in the above referenced proceeding. The attached material was used as the basis for our discussion.

Sincerely,

Anthony M Alessi

Attachment

cc: K. Levitz
D. Grosh
A. Belinfante
A. Bush
J. Wall
A. Gomez

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INCENTIVE REGULATION AND DIGITAL INFRASTRUCTURE DEPLOYMENT BY LECS

by

SHANE GREENSTEIN

University of Illinois

SUSAN MCMASTER

University of Illinois

and

PABLO T. SPILLER

University of California, and LECG

THE ISSUE

- **WHO WILL BUILD THE INFORMATION SUPERHIGHWAY?**
- **KEY ROLE OF LECS**
- **DOES REGULATION INFLUENCE INVESTMENT?**

OVERVIEW

- **EMPIRICAL**
- **LEC SPECIFIC INFORMATION ON**
REGULATION
DEPLOYMENT OF FIBER OPTIC &
COMPLEMENTARY TECHNOLOGIES
BUSINESS & DEMOGRAPHIC
- **ALTERNATIVE ECONOMETRIC MODELS**

DATA

- **PANEL DATA**

LEC TERRITORY WITHIN A STATE

101 LECS PER YEAR (1986/91)

- **ENDOGENOUS VARIABLES:**

FIBER OPTIC CABLE (1986/91)

**ISDN LINES, SS7, DSPC SWITCHES
(89/91)**

DATA

- **REGULATORY VARIABLES, LEC SPECIFIC**

PRICE REGULATION

PRICE CAP

PRICE FREEZE

EARNINGS SHARING

OTHER VARIABLES MEASURING

ENTRY

BYPASS

COMPETITION RESTRICTIONS

DATA

- **EXOGENOUS VARIABLES, LEC SPECIFIC:**

LAND AREA

POPULATION (URBAN/RURAL)

PER-CAPITA INCOME

MANUFACTURING, FIRE INCOME

CONSTRUCTION WAGES

- **EXOGENOUS VARIABLES, GENERAL**

NUMBER OF LECS IN STATE

YEAR AND LEC TYPE DUMMY VARIABLES

RESULTS

- **DIFFERENT ESTIMATION METHODS**

PARTIAL ADJUSTMENT MODEL
BASELINE GROWTH MODEL
- **PRICE REGULATION HAS STATISTIC AND ECONOMIC SIGNIFICANCE ON DEPLOYMENT OF FIBER, SS7 AND ISDN**
- **EARNINGS SHARING DOES NOT**

RESULTS

● COUNTERFACTUAL

SAMPLE

**LECS WITH NO INCENTIVE
REGULATION AS OF 1991**

METHOD

**IMPOSE ALTERNATIVE TYPES OF
INCENTIVE SCHEMES**

RESULTS

FIBER

	PARTIAL ADJUSTMENT	BASELINE GROWTH
PRICE REG	80%	130%
PRICE REG & E.S.	40%	55%
EARNINGS SHARING	30%	-50%

OVERVIEW: MAIN RESULTS

- **INCENTIVE REGULATION STRONGLY
INFLUENCES DEPLOYMENT
PRICE REGULATION PROVIDES STRONG
INCENTIVES
EARNINGS SHARING DOES NOT
PRICE REG. AND E.S. COMBINED
PROVIDE LITTLE INCENTIVES**
- **DEMOGRAPHICS ARE IMPORTANT**
- **RBOCS ARE NO DIFFERENT THAN
ANYBODY ELSE**

FINAL COMMENTS

- **PRICE INCENTIVES MATTER**
- **ALTERNATIVE REGULATORY STRUCTURES
HAVE DIFFERENT DEPLOYMENT EFFECTS**
- **SIMPLE REGULATORY STRUCTURES ARE
SUPERIOR**